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| REVIEW OF WHOLESALE ELECTRIC | § | BEFORE THE |
| MARKET DESIGN | § | PUBLIC COMMISSION OF TEXAS |
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COMMENTS

AARP is the nation's largest nonprofit, nonpartisan organization dedicated to empowering people 50 and older to choose how they live as they age. With a nationwide presence and nearly 38 million members, AARP strengthens communities and advocates for what matters most to families: health security, financial stability and personal fulfillment. AARP is an advocate nationwide for the rights of people aged 50 and older. A substantial percentage of AARP's members live on fixed or limited incomes. A major priority for AARP is to protect consumers from unreliable power and utility expenses that may endanger their health and financial security. We have nearly 2.3 million members in Texas.

The health, safety and economic welfare of Texans depends on affordable electricity rates and reliable service. The electric system failure during Winter Storm Uri revealed that the market operating within ERCOT was incapable of delivering affordable rates and reliable service during severe cold. The failure left hundreds of Texans dead, more than 4.8 million homes and businesses without power for days and \$86 billion to \$129 billion total economic damage to the state, according to one estimate. Market reform is clearly needed.

AARP recommends that policymakers, including the Commission, ERCOT, and the Legislature ensure that adequate reserve capacity is available at all times to maintain reliability and price stability for customers. The recent actions taken by the Commission and ERCOT to stabilize the electric grid for the summer of 2021 are a good first step. Looking ahead, this rulemaking begins an opportunity to fundamentally redesign the market operating within ERCOT to ensure greater reliability with fair and affordable rates for consumers. That is a tall but vital task, especially given consumers will be paying billions over many years in securitized February 2021 market failure amounts.

As the Commission explores various ways to systemically improve the reliability of the market operating within ERCOT, AARP urges the utmost consideration of options that provide the best value for consumers. Like systemwide outages, unaffordable power can present dangerous outcomes, especially for older Texans. Accordingly, we offer the following comments to staff's questions:

- 1. What specific changes, if any, should be made to the Operating Reserve Demand Curve (ORDC) to drive investment in existing and new dispatchable generation? Please consider ORDC applying only to generators who commit in the day-ahead market (DAM). Should that amount of ORDC - based dispatchability be adjusted to specific seasonal reliability needs?**

No comment at this time.

- 2. Should ERCOT require all generation resources to offer a minimum commitment in the day-ahead market as a precondition for participating in the energy market?**
 - a. If so, how should that minimum commitment be determined?**
 - b. How should that commitment be enforced?**

Affordable and reliable energy for home heating and cooling is essential to the health and safety of older adults. At the same time, older adults are especially vulnerable to climate change-related health impacts of heat waves, natural disasters, and poor air quality. As such, older Texans have a stake in the affordability, reliability and sustainability of electricity in our state.

AARP is concerned that requiring all generation resources to offer a minimum commitment in the day-ahead market as a precondition for participating in the energy market could jeopardize Texas ratepayers' investment in renewable energy and the accuracy of short term forecasting. Texas has made substantial investment in clean energy over the past two decades. Consumers paid \$7 billion to fund Competitive Renewable Energy Zones (CREZ) transmission expansion specifically designed to deliver West Texas and Panhandle winds to ERCOT load centers in Dallas, Ft. Worth, Austin and San Antonio. Any pursuit of requiring a minimum commitment should be accompanied by evidence that intermittent renewable resources are able to make such commitments and document the impact of such a program on solar and wind generators.

Depending on the specifics of the commitment and severity of possible penalties, solar/wind owners may respond by making no commitment to the day-ahead market on particular days or uniformly making very small commitments which do not reflect the actual output available for the next day. This would limit the ability of the day-ahead market to provide realistic predictions of actual power availability the next day and in some circumstances this action could have the unintended consequence of making less capacity available during an emergency. The Commission should be extremely careful in its approach to such a policy to ensure that potential negative consequences will not make the reliability objective even more tenuous.

- 3. What new ancillary service products or reliability services or changes to existing ancillary service products or reliability services should be developed or made to ensure reliability under a variety of extreme conditions? Please articulate specific standards of reliability along with any suggested AS products. How should the costs of these new ancillary services be allocated.**

No comment at this time.

4. Is available residential demand response adequately captured by existing retail electric provider (REP) programs? Do opportunities exist for enhanced residential load response?

AARP supports demand response programs that are cost effective, available to lower and fixed income households at no or subsidized cost, and that do not impose or punish customers for essential uses of electricity to maintain their health and safety. Such policies should be transparent, consistent, and equitable. When provided with incentives and properly designed programs, many residential electric customers can modify their energy use in response to a call to conserve to protect grid reliability. However, AARP urges the Commission to consider that many residential demand response programs require participating customers to 1) have discretion regarding when and how they use electricity and 2) have access to demand response tools. These conditions make demand response a poor match for some residential electricity customers.

AARP does not support mandatory time of use rate designs. While charging different prices based on when and how consumers use electricity might benefit high-income and high-usage customers, these programs could lead to higher costs for customers who have limited options for reducing their demand to off-peak times. This includes those who already have lower usage and those who are more likely to be home during peak hours, including older adults. AARP urges the Commission to reject such programs that are likely to shift costs to those who use less than the average amount of electricity. And if such programs are allowed, they should require customers to opt in.

AARP urges the Commission to consider that many residential demand response tools, such as smart thermostats, automated building energy management systems or remote-controlled equipment are simply beyond the financial reach of many low and fixed income households. Without access to such tools, many Texans are unable to participate in residential demand response programs.

AARP supports the Commission exploring more basic and cost-effective alternatives to reduce energy usage. Certain energy efficiency measures have the potential to reduce year-round usage and bills, while additionally helping to reduce overall load during periods of extreme cold and heat. For example, over half of Texas homes were built before the state adopted building energy codes with insulation requirements in 2001. Older Texans disproportionately occupy these homes. Over 60% of Texas homes are heated with electricity. Energy-efficient building shells and heaters could substantially reduce electricity demand across the ERCOT grid.

5. How can ERCOT's emergency response service program be modified to provide

additional reliability benefits? What changes would need to be made to Commission rules and ERCOT market rules and systems to implement these program changes?

No comment at this time.

6. How can the current market design be altered (e.g., by implementing new products) to provide tools to improve the ability to manage inertia, voltage support, or frequency?

AARP submits that the systemwide failure in February warrants a broader market design examination than this question provides. Pillars of the market within ERCOT such as establishing an increasingly higher price cap for the cost of electric generation did not prevent the February disaster. Market participants, and ultimately consumers, have paid high prices during critical hours summer after summer, yet it did not translate into more reliable service when it was needed most. The Commission should more broadly explore market reform, including the threshold question of whether the market alone should be relied on to ensure reliability. AARP offers the following areas as a starting point to an expanded look at reforming the market within ERCOT.

ERCOT needs improved forecasting and planning, with more attention to non-summer months of the year. Resource adequacy demands year-round attention and improvement. ERCOT's pre-winter Seasonal Assessment in November 2020 predicted winter peak demand under normal conditions to be 57.7 GW and an extreme season peak load of 67.2 GW.¹ This compares to the 77 GW ERCOT expected to reach on February 15 if not for load cuts.² Underestimating peak loads starts a cascading process that allows too many resources to be offline for scheduled maintenance.

Consistent with a renewed emphasis on reliability beyond summer months, the Commission should explore programs that can provide certain electricity consumers incentive to "shave peak" year-round. For example, the Commission should review its 4 Coincident Peak (4CP) program. The 4CP program presents loads the opportunity to maintain lower transmission cost of service charges on their electricity bills. Participants voluntarily reduce their energy consumption on one day, during a specific period of time in June, July, August and September. Reducing consumption on those four peak days leads to a reduction in cost applied the following year. The Commission has also used 4CP for TDU cost of service. AARP submits that using 12 CP (i.e. making calculations based on peak events every month, rather than just four) for allocating transmission costs to loads and for TDU cost of service can bring important energy reduction on peak days year-round and better recognize that winter and shoulder season demand are critical to reliability.

¹<http://www.ercot.com/news/releases/show/216844>

²[http://puc.texas.gov/agency/resources/reports/UTAustin_\(2021\)_EventsFebruary2021TexasBlackout_\(02\)FINAL_07_12_21.pdf](http://puc.texas.gov/agency/resources/reports/UTAustin_(2021)_EventsFebruary2021TexasBlackout_(02)FINAL_07_12_21.pdf)

AARP also supports the Commission exploring a backstop reliability mechanism for the market within ERCOT. As alluded to above, high prices alone were never going to change the weather or unfreeze ill-prepared infrastructure for the extreme cold experienced this February. Yet consumers will soon be committed for decades to pay billions in exorbitant costs incurred by various market participants because the market within ERCOT relies so heavily on high prices for reliability. AARP supports the Commission exploring a backstop reliability mechanism that can be deployed if expected resources are insufficient to cover projected summer and winter peaks plus a healthy reserve margin. This mechanism should achieve at least two goals: (1) serve as a temporary method for providing the minimum capacity needed to meet appropriate reliability objectives and (2) provide the best value for consumers. This approach would involve ERCOT issuing an RFP and selecting providers to meet a summer and winter reserve margin shortfall on a competitive basis. This mechanism would include dispatchable capacity so that controllable loads and storage could compete for service.

The Commission should also explore building reliability-enhancing requirements into the Retail Electric Provider (REP) certification process. Absent a mandatory reserve requirement, the current market design allows risk taking REPs to gain market share quickly by taking advantage of low spot market prices without backing their commitments to retail customers with forward positions in the wholesale market. REPs can speculate on the spot market without consequence on what they pay for the market's reserves that provide emergency back-up. Viewing grid reliability as a public good, these risk-taking REPs are "free riders" on the system and as a result the market can be left without sufficient reserves and without price signals indicating to generators the future demand for power. The Commission should explore whether REPs should be required to acquire sufficient capacity call options to meet a certain percentage reserve margin for their expected coincident peak demand.

SB3 and other new statutes adopted by the Texas Legislature have provided an initial framework to respond to the February disaster, but the important work of market reform is now in the hands of the Commission. AARP commends the Commission for opening this project and urges consideration of possible reforms beyond the scope of these questions. On behalf of older Texans, AARP looks forward to continuing to work with the Commission to make sure needed improvements are made.

Respectfully submitted,



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